

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



TRINITY COUNTY FAIR  
HAYFORK, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-060  
FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

TRINITY COUNTY FAIR  
HAYFORK, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
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AUDIT STAFF

Ron Shackelford, CPA  
Shakil Anwar, CPA  
Hardeep Kaur

Audit Chief  
Assistant Audit Chief  
Auditor

AUDIT REPORT NUMBER

#08-060

TRINITY COUNTY FAIR  
HAYFORK, CALIFORNIA

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Billie Miller, President  
Board of Directors  
Trinity County Fair  
P.O. Box 880  
Hayfork, California 96041

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the Trinity County Fair, Hayfork, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the Trinity County Fair's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trinity County Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Trinity County Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-060, on the Trinity County Fair's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the Trinity County Fair as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read 'Ron Shackelford', with a long horizontal flourish extending to the right.

For Ron Shackelford, CPA  
Chief, Audit Office

June 27, 2008

**TRINITY COUNTY FAIR  
HAYFORK, CALIFORNIA**

STATEMENT OF FINANCIAL CONDITION  
Years Ended December 31, 2007 and 2006

	<b>Account Number</b>	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>			
Cash in Bank	111 - 117	\$ 117,267	\$ 46,534
Accounts Receivable, Net	131	55,096	78,310
Equipment, Net	193	11,903	19,261
Leasehold Improvements, Net	194	965,002	939,326
<b>TOTAL ASSETS</b>		<b><u>1,149,268</u></b>	<b><u>1,083,431</u></b>
<b>LIABILITIES AND NET RESOURCES</b>			
<b>Liabilities</b>			
Compensated Absences Liability	220	14,984	9,890
Accounts Payable and Other Liabilities	221-227	(66)	200
<b>Total Liabilities</b>		<b><u>14,918</u></b>	<b><u>10,090</u></b>
<b>Net Resources</b>			
Reserve for Junior Livestock Auction	251	15,285	11,333
Net Resources - Capital Assets	291.1	976,905	958,587
Net Resources - Operations	291	142,160	103,421
<b>Total Net Resources Available</b>		<b><u>1,134,349</u></b>	<b><u>1,073,341</u></b>
<b>TOTAL LIABILITIES AND NET RESOURCES</b>		<b><u>\$ 1,149,268</u></b>	<b><u>\$ 1,083,431</u></b>

**TRINITY COUNTY FAIR  
HAYFORK, CALIFORNIA**

STATEMENT OF OPERATIONS/CHANGES IN ACCOUNTABILITY  
Years Ended December 31, 2007 and 2006

	<u>Account Number</u>	<u>2007</u>	<u>2006</u>
<b>REVENUE</b>			
State Apportionments	312	\$ 180,000	\$ 180,000
Capital Project Funds	317 - 318	52,410	87,281
County Funds	330	25,000	25,000
Other Funds	340	14,502	-
Admissions	410	16,407	17,180
Commercial Space	415	7,775	7,150
Carnival	421	15,360	11,220
Food Concessions	422	10,607	11,504
Exhibits	430	7,474	7,844
Horse Show	440	2,337	2,288
Attractions - Fairtime	460	35,928	38,739
Miscellaneous Fair	470	8,645	8,706
JLA - Revenue	476	3,952	3,282
Non-Fair Revenue	480	113,317	59,831
Prior Year Adjustment	490	-	21,788
Other Revenue	495	1,978	1,977
<b>Total Revenue</b>		<u><b>495,691</b></u>	<u><b>483,790</b></u>
<b>EXPENSES</b>			
Administration	500	138,981	140,658
Maintenance and Operations	520-530	175,026	168,392
Publicity	540	8,252	10,825
Attendance	560	9,281	6,062
Miscellaneous Fair	570	3,540	2,935
Premiums	580	7,896	8,748
Exhibits	630	24,797	25,293
Horse Show	640	4,019	5,037
Attractions - Fairtime	660	43,533	41,866
Prior Year Adjustments	800	(48,390)	43,493
Cash Over/Short	850	2	-
Depreciation Expense	900	53,244	51,612
Capital Expenditures, F&E	930	14,503	29,619
<b>Total Expenses</b>		<u><b>434,684</b></u>	<u><b>534,539</b></u>
<b>RESOURCES</b>			
Net Change - Income / (Loss)		61,008	(50,749)
Resources Available, January 1		1,073,341	1,124,090
<b>Resources Available, December 31</b>		<u><b>\$ 1,134,349</b></u>	<u><b>\$ 1,073,341</b></u>

**TRINITY COUNTY FAIR  
HAYFORK, CALIFORNIA**

STATEMENTS OF CASH FLOWS - REGULATORY BASIS  
Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 61,008	\$ (50,749)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	23,214	(67,576)
Increase (Decrease) in Deferred Income	-	(38,108)
Increase (Decrease) in Accounts Payable	(266)	-
Increase (Decrease) in Compensated Absence Liability	5,093	(3,535)
Increase (Decrease) in Guarantee Deposits	-	200
Total Adjustments	<u>28,042</u>	<u>(109,019)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><b>89,049</b></u>	<u><b>(159,768)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) Decrease in Construction in Progress	-	110,863
(Increase) Decrease in Leasehold Improvements	(25,676)	(69,527)
(Increase) Decrease in Equipmen	<u>7,358</u>	<u>143</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<u><b>(18,318)</b></u>	<u><b>41,479</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (Decrease) in Long-Term Liability	<u>-</u>	<u>-</u>
<b>Net Cash Provided (Used) by Financing Activities</b>	<u><b>-</b></u>	<u><b>-</b></u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>70,732</b>	<b>(118,289)</b>
Cash at Beginning of Year	46,534	164,824
<b>CASH AT END OF YEAR</b>	<u><u><b>\$ 117,267</b></u></u>	<u><u><b>\$ 46,534</b></u></u>



# **TRINITY COUNTY FAIR HAYFORK, CALIFORNIA**

## **NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2007 and 2006

### **NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The Trinity County Fair Association is a California nonprofit corporation under section 501(c)(3) of the Internal Revenue Code organized on September 11, 1986, for the purpose of sponsoring, managing, and conducting the Trinity County Fair each year in Hayfork, California. The Association is governed by a board of directors comprised of nine directors. Five directors are appointed by the County Board of Supervisors and the other four are elected for a four to five year term at the annual meeting. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the Trinity County Fair Association. The Trinity County Fair Association is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the County of Trinity, which is then given to the Trinity County Fair Association, to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the Trinity County Fair conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The Trinity County Fair's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The Trinity County Fair's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in

the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The Trinity County Fair is a nonprofit corporation and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The Trinity County Fair's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the Fair approximates market value.

In accordance with the Accounting Procedures Manual, the Trinity County Fair is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Lease Agreement with Trinity County - The Trinity County Fair Association entered into a lease agreement with Trinity County, which permits the Fair Association to hold and conduct a County Fair annually as an agent for the County. The terms of the lease commenced on May 1, 2002 and will continue until April 30, 2022. The contract details the Association's responsibilities to hold and conduct an annual fair in Trinity County on County Fairgrounds pursuant to Government Code section 25906. As an agent of the County, the Association manages, operates, and conducts the fair, fairgrounds property, and fairground activities for the period of the contract. Per the contract, the buildings, tenant improvements and all other fixed assets on the fairgrounds remain property of the County. The Association also has the responsibility to make and keep all records substantially in agreement with the accounting and procedures as illustrated in the Accounting Procedures Manual issued by the Department of Food and Agriculture, Division of Fairs and Expositions

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful

life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.25% on all of the Trinity County Fair’s sales of merchandise. The Trinity County Fair collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The Trinity County Fair’s accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2

**CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the Trinity County Fair as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 20	\$ 20
Cash in Bank - Operating	100,105	31,425
Cash in Bank - Premium	905	2,362
Cash in Bank - JLA	3,322	230
Cash in Bank – Investments	<u>12,915</u>	<u>12,497</u>
Total Cash and Cash Equivalents	<u>\$ 117,267</u>	<u>\$ 46,534</u>

NOTE 3

**ACCOUNTS RECEIVABLE**

The Trinity County Fair is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 55,096	\$ 78,310
Allowance for Doubtful Accounts	<u>0</u>	<u>0</u>
Accounts Receivable - Net	<u><u>\$ 55,096</u></u>	<u><u>\$ 78,310</u></u>

NOTE 4

**LEASEHOLD IMPROVEMENTS AND EQUIPMENT**

Leasehold improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Leasehold Improvements	\$1,616,286	\$1,547,126
Less: Accumulated Depreciation	<u>(651,284)</u>	<u>(607,800)</u>
Building & Improvements - Net	<u><u>\$ 965,002</u></u>	<u><u>\$939,326</u></u>
Equipment	\$ 62,189	\$ 62,189
Less: Accumulated Depreciation	<u>(50,286)</u>	<u>(42,928)</u>
Equipment - Net	<u><u>\$ 11,903</u></u>	<u><u>\$ 19,261</u></u>

NOTE 5

**RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**TRINITY COUNTY FAIR  
HAYFORK, CALIFORNIA**

**REPORT DISTRIBUTION**

<u>Number</u>	<u>Recipient</u>
1	President, Trinity County Fair Board of Directors
1	Chief Executive Officer, Trinity County Fair
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE  
AUDIT OFFICE



TRINITY COUNTY FAIR  
HAYFORK, CALIFORNIA

MANAGEMENT REPORT #08-060

YEAR ENDED DECEMBER 31, 2007

TRINITY COUNTY FAIR  
HAYFORK, CALIFORNIA

MANAGEMENT REPORT  
YEAR ENDED DECEMBER 31, 2007

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AUDIT STAFF

Ron Shackelford, CPA  
Shakil Anwar, CPA  
Hardeep Kaur

Audit Chief  
Assistant Audit Chief  
Auditor

MANAGEMENT REPORT NUMBER

#08-060

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Billy Miller, President  
Board of Directors  
Trinity County Fair  
P.O. Box 880  
Hayfork, California 96041

In planning and performing our audit of the financial statements of the Trinity County Fair, Hayfork, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Trinity County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the Trinity County Fair's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the Trinity County Fair's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly



recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the Trinity County Fair in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The Trinity County Fair's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the Trinity County Fair's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the Trinity County Fair and compliance with state laws and regulations, we identified five areas with reportable conditions that are considered weaknesses in the Fair's operations: accounting for fixed assets, carnival contract, cash receipts, junior livestock auction, and post-closing trial balance. We have provided eight recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the Trinity County Fair's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

## REPORTABLE CONDITIONS

### ACCOUNTING FOR FIXED ASSETS

The Fair did not reconcile its general ledger and detailed depreciation schedule prior to closing its accounting records and preparing the 2007 Statement of Operations (STOP). Our office noted that the Fair understated Account #900, Depreciation Expense, by \$63,238. Although our office was able to make the necessary correcting journal entries to fairly state the balance in our Independent Auditor's Report, the amounts reported in the 2007 STOP and year-end accounting reports were materially incorrect.

In addition, the Fair understated Account #194.1, Accumulated Depreciation – Leasehold Improvements, by \$8,000. The balance reported by the Fair in its property ledger and related depreciation schedule was \$643,284 for Account #194.1 as of December 31, 2007. However, our office analyzed the depreciation schedule and determined the correct balance to be \$651,284. The variance is due to the fact that the Fair used incorrect number of years in service for an Irrigation/Water System upgrade. As a result of this accounting error, Account # 194.1 was understated while overall net resources were overstated by \$8,000 at the year-end 2007.

#### *Recommendations*

- 1. The Fair should ensure the amount recorded in the general ledger for Account #900, Depreciation Expense, reflects only current year depreciation expense. The Fair should reconcile the balance in Account #900, Depreciation Expense, to the Fair's detailed depreciation worksheets to ensure the amount is fairly stated. Any differences should be researched for their cause and corrected prior to closing the accounting period and preparing the year-ending financial statements.*
- 2. The Fair should make the necessary correcting journal entries to ensure that Account #194.1, Accumulated Depreciation - Leasehold Improvements, is fairly stated in the Fair's general ledger.*
- 3. In addition, the Fair should improve its accounting for fixed assets by ensuring that both the general ledger and depreciation schedule amounts are in agreement. If they are not in agreement, the Fair should take necessary steps to resolve the differences. In the future, the Fair should place more emphasis on ensuring that their property ledger and related depreciation schedule are adequately updated and reconciled to reflect the fair value of related assets prior to closing the accounting period and preparing the year-end accounting reports. This process will benefit the Fair, since it will result in the preparation of a more accurate STOP.*

### CARNIVAL CONTRACT

The Fair exposed itself to loss by not fully complying with the rules and regulations set forth in the Accounting Procedures Manual (APM) regarding the preparation of a carnival

contract. The Fair did not establish a new carnival contract for the year 2007. The Fair used an expired and unsigned contract from a prior year for 2007. The Fair exposed itself to the risk by conducting business with an expired and unsigned contract. Conducting business with expired and unsigned contract terms will provide no protection should disputes arise regarding financial splits or expectations of work performance between both parties.

#### *Recommendation*

4. *The Fair should ensure it complies with good business practices and establishes a formal contract with its Carnival contractor. This process only helps the Fair, since contracts between both parties indicate a mutual agreement of all terms and conditions by both parties.*

### **CASH RECEIPTS**

The Fair exposed itself to loss by not indicating the composition of funds received from patrons as either cash or check on each cash receipt prepared. According to State Administration Manual (SAM), Section 8022, the Fair's cash receipts should contain information regarding the type of collection (such as cash, check, or money order) received from each payer. This information will be recorded so that it can be readily audited from receipts, reports of collections, or the registers, and will show by notation the amount of the check or money order presented. Indicating the composition of currency (i) prevents borrowing of money, and (ii) allows the Fair to compare the composition of monies received to the deposit slips in order to verify that all funds received were deposited intact.

#### *Recommendation*

5. *The Fair should comply with SAM and improve its cash receipting practices by indicating the type of collection received from each patron, as either cash or check, every time a cash receipt is issued.*

### **JUNIOR LIVESTOCK AUCTION**

The Fair did not reconcile Account #251, Reserve for Junior Livestock Auction (JLA) to Account #117, JLA- Cash. As a result, the balances in these accounts do not agree. According to the APM, the balance in the auction account, adjusted for accounts receivable and accounts payable, must equal the related net resources, Account #251, Reserve for JLA. The purpose of this procedure is to ensure funds from JLA activities are segregated from Fair operating funds. This is a prior year finding.

The Fair did not properly close JLA activities to the JLA reserve account at year-end. All JLA activity must be accounted for using the fund accounting approach. The fund accounting approach requires that all JLA resources, revenues, and expenses be accounted for separately from other operating revenues and expenses. Fund accounting and consistent accounting conventions are used throughout the industry, which make possible inter-fair comparisons and analyses of various operations. As a result of not reporting JLA activity, the Fair has underreported JLA revenues and expenditures.

*Recommendations*

6. *The Fair should improve its accounting procedures for JLA transactions. At year-end, the Fair should ensure it reconciles the JLA cash account to the JLA reserve account.*
7. *Prior to closing its accounting records at year-end, the Fair should ensure Account #251, Reserve for JLA, reconciles to the corresponding bank account after it is adjusted for JLA accounts receivables and accounts payables. The Fair should ensure all entries to the general ledger are justified with supporting documentation.*

**POST CLOSING TRIAL BALANCE**

The Fair did not have a clear audit trail as it closed its accounting period and prepared the year-end Statement of Operations. Our office noted the Fair did not close revenue and expense accounts prior to preparing the post-closing trial balance. According to APM, section I, Ch. 7.3 all revenue and expense accounts with balances should be verified and closed to the related net resource account. Once the books have been closed, the Fair should generate another trial balance that includes only the balance sheet accounts i.e., asset and liability accounts. The purpose of the post-closing trial balance is to list the general ledger real accounts balances, which are balance sheet accounts and adjustments, after revenue and expenditure accounts have been closed.

*Recommendation*

8. *The Fair should comply with APM and follow closing procedures to close the books at year-end. In addition, the Fair should ensure a clear audit trail exists at year-end as it closes its accounting records and prepares the annual Statement of Operations. This includes (i) maintaining a pre-closing trial balance that reconciles to the general ledger, (ii) maintaining detailed journal entries as the Fair closes current year revenue and expenses, (iii) formally closing all revenue and expenses and preparing a post-closing trial balance as of December 31, and (iv) preparing and reconciling the annual statement of operations to financial information on the pre- and post-closing trial balances.*

## NON-REPORTABLE CONDITIONS

### NEPOTISM

The Fair allowed nepotism to exist during the year. Our office noted that two permanent employees approved all the timecards of their immediate family (i.e., son, daughter and brother). The immediate family members were hired by the Fair as temporary employees. They performed administrative and maintenance duties and worked in the same location under the permanent employee's supervision in 2007. The Accounting Procedures Manual (APM) § III, 4.2, Nepotism, prohibits direct supervision of any employee, permanent, temporary, or seasonal, with whom a supervisor has a personal relationship. Although it may be appropriate for individuals who have a personal relationship to work in the same location, it is important that these arrangements do not violate the requirements of separation of duties.

#### *Recommendation*

*The Fair should prohibit employees from having direct supervision of any individuals with whom a personal relationship exists. At a minimum, the employees should report to someone other than a family member. An individual should never be allowed to review and approve timecards from a member of their family.*

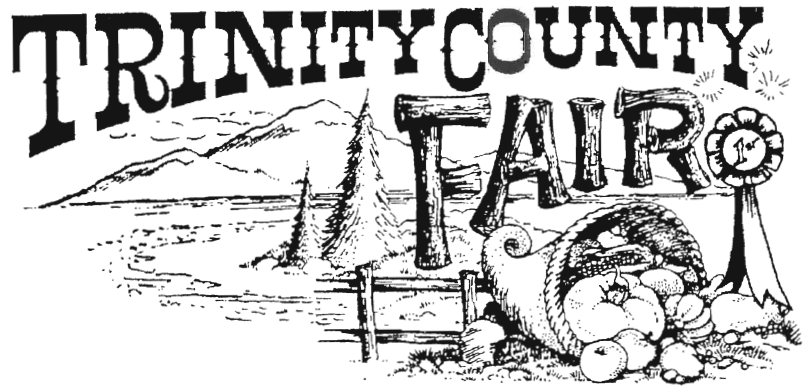
### NET RESOURCES

The Fair understated its revenues and expenditures for 2007 by making a direct journal entry to Account #291, Net Resources, without recognizing any corresponding revenue or expense. Our office noted one journal entry made to the net resource account, related to the addition of capital projects during the year. Such accounting practices lack financial transparency, as well as weaken a proper audit trail. The purpose of the net resource account is for reporting the increases and decreases resulting from net income or loss recognized during the course of doing business. The Fair should refrain from making direct entries to the net resource account, as this practice understates the revenues and expenditures of the Fair, improperly conceals the financial nature of the related transactions, and could result in materially inaccurate or misleading financial reporting.

#### *Recommendation*

*The Fair should ensure journal entries are not recorded directly to any net resources account, as this understates total revenues and expenses and may lead to material misstatements in the Fair's financial reporting.*

**COUNTY FAIR ASSOCIATION'S RESPONSE**



Audit Response  
Year ending December 2007

Accounting for fixed Assets

1. The Trinity County Fair will make every effort to insure Account #900 reflects the current year Depreciation expense. By reconciling the balance in account #900 before closing the year.
2. The fair will make the necessary correcting journal entries to insure that account #194.1 Accumulated Depreciation - Leasehold improvements is fairly stated in the Fair's general ledger.
3. The fair will improve its accounting for fixed assets by insuring that the depreciation schedule and the general ledger amounts are in agreement.

Carnival Contract

4. The fair is working on a new Carnival Contract for 2009.

Cash Receipts

5. We will mark every Receipts Cash or Check.

Junior Livestock Auction

6. At year- end the fair will reconcile the JLA cash account to the JLA reserve account.
7. The fair will ensure account # 251 reconciles to the corresponding bank account after it is adjusted for accounts payable and accounts receivable.

Post Closing Trial Balance

8. I am sorry, I don't quite know how to answer because the pre-closing and post-closing trial balances were done, but for some reason three accounts did not zero out in the pre-closing trial balance, but were zero on the post-closing trial balance. Our Statement of Operations is prepared by CFSA.

The above recommendations will be implemented by the close of the 2008 year and the preparation of the 2008 Statement of Operations.

Jerry Fulton CEO

Billie Miller President

Date

9-18-08



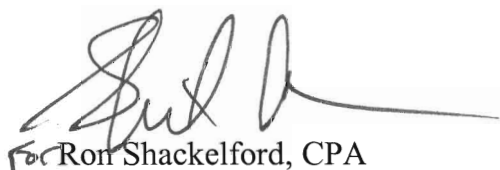
### **CDDA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of the Trinity County Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

### DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between June 16, 2008 and June 27, 2008. My staff met with management on June 27, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read 'Ron Shackelford', with a long horizontal line extending to the right.

Ron Shackelford, CPA  
Chief, Audit Office

June 27, 2008

**REPORT DISTRIBUTION**

<u>Number</u>	<u>Recipient</u>
1	President, Trinity County Fair Board of Directors
1	Chief Executive Officer, Trinity County Fair
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office